C

CONSOLIDATED RAMBLER MINES LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31

1981

CONSOLIDATED RAMBLER MINES LIMITED

Incorporated under the laws of Ontario on January 20, 1961

DIRECTORS

J. J. Hogan .... New York, New York
W. D. Jamieson .... Saint John, New Brunswick
A. G. Kirkland .... Saint John, New Brunswick
†W. D. Macaulay .... Saint John, New Brunswick
†D. A. Macfarlane .... Saint John, New Brunswick
†G. F. Pushie .... St. John's, Newfoundland

†Members of the Audit Committee

OFFICERS

D. A. Macfarlane .... *President and Treasurer*
A. G. Kirkland .... *Vice-President*
W. D. Jamieson .... *Secretary*

EXECUTIVE OFFICE

Fifth Floor, Golden Ball Bldg. .... Saint John, N.B.

MINE OFFICE

Baie Verte .... Newfoundland

AUDITORS

Coopers & Lybrand .... Saint John, N.B.

TRANSFER AGENT and REGISTRAR

Guaranty Trust Company of Canada .... Toronto, Ontario

ANNUAL MEETING

June 24, 1982 — 2:00 p.m. (Toronto time)
British Columbia Room, The Royal York Hotel, Toronto, Ontario

DIRECTORS' REPORT

To the Shareholders:

Operations for 1981 resulted in earnings before extraordinary item of $2,091,812 ($0.70 per share) compared with $2,221,042 ($0.75 per share) in 1980. The profit for the year 1981 was subject to an extraordinary item relating to income taxes as described in note 4 to the financial statements. Profit for 1981 after the extraordinary item was $6,581,812 ($2.21 per share). The reduction in operating profit for 1981 was attributable to lower metal prices, higher production costs and a reduction in output.

Production of copper concentrate in 1981 was 22,984 tons, down slightly from 24,454 tons produced in 1980. Virtually all of the production (97½%) was from the Ming Extension property which is the lower levels of the mine and accordingly, more costly. Direct mine costs increased from $45.50 per ton ore milled in 1980 to $54.17 per ton in 1981, an increase of 19%. This was offset to some minor extent by the grade of copper in the ore which increased from 3.51% in 1980 to 3.82% in 1981.

There were four shipments of concentrate totalling 28,866 short wet tons in the 1981 shipping season compared with 37,300 tons in the year 1980. At December 31, 1981 there was about 7,300 tons of concentrate in storage at Tilt Cove, Newfoundland, which will be shipped in 1982.

The average price realized by the Corporation from concentrate sales in 1981 was lower by about 29% than the previous year. A copper price of Can. 84¢ per lb. has been used in the valuation of concentrate at the 1981 year end compared with Can. 88¢ at the end of 1980. As described in the financial statements, certain forward hedge contracts have been entered into on the futures market, which are designed to protect the Corporation's valuation.

During 1981 further exploration was carried out at the Corporation's mining property in Newfoundland, both on surface and underground. Exploration was also done on mining claims in an area near the Corporation's milling facility. Details of this work are described in the Mine Manager's report.

Despite lower operating earnings, the Corporation's working capital showed a strong improvement during the year, increasing from about $19.1 million at December 31, 1980 to about $26.5 million at December 31, 1981. The major portion of this increase was due to interest income which, during 1981, amounted to $3.6 million (before income taxes) and the income tax recovery which was almost $4.5 million. It is expected the Corporation will be liable for taxation at normal rates prior to the end of 1982.

During 1981, consideration was given to terminating mining operations and on September 3, notice was given to all employees and to regulatory authorities that active mining operations would terminate on November 30, 1981. This notice was given because operating costs and metal prices were resulting in the operations approaching a no profit position. Prior to November 30, 1981, plans were worked out whereby certain of the Corporation's activities would be terminated and others rearranged so that the working force could be reduced by 33 men. This action enabled operations to continue on a month to month basis dependent on the availability of ore, the ability of mining crews to deliver required quantities to the concentrator, operating costs and metal markets. Mining operations have since terminated on April 30, 1982.

On December 28, 1981, Mr. L. McC. Ritchie, a director and President of our Corporation, died. Mr. Ritchie, a former judge of the Supreme Court of New Brunswick, had been a director of Rambler for almost eleven years and made a valuable contribution to the Corporation's affairs during that time. His position on the Board of Directors has been filled by Mr. J. J. Hogan, a lawyer resident in New York, U.S.A.

On behalf of the Board,

D. A. MACFARLANE, President

April 30, 1982
Saint John, N.B.

MINE MANAGER'S REPORT

To: — Mr. A. G. Kirkland, Vice-President

Operations for the year ended December 31, 1981 are as follows:

PRODUCTION	1981	1980
Ore milled — D.S.T.	157,900	181,089
Average per operating day	669	761
Grade % Cu	3.82	3.51
Operating time %	77.67	85.54
Copper recovery %	95.66	95.56
Concentrate produced — D.S.T.	22,984	24,454
Contained Metals — Copper — Pounds (Net)	11,090,433	11,691,232
Gold — Ounces (Net)	6,244	7,497
Silver — Ounces (Net)	49,970	61,261

MINE OPERATING COSTS PER TON MILLED

	1981	1980
Mining	$ 25.61	$ 22.98
Development	6.66	4.64
Milling	14.38	11.67
General	8.06	6.21
	$ 54.71	$ 45.50

ORE RESERVES

As at December 31 —

	1981	1980
Vertical depth ft.	2,600	2,500
Reserves — tons	94,000	173,000
Grade Cu — %	3.41	3.28
Grade Au — oz./ton	0.06	0.05
Grade Ag — oz./ton	0.54	0.45

Ore reserves now include the Ming Extension only since all known recoverable ore has been extracted in the Ming Property.

MING MINE DEVELOPMENT

	1981	1980
Main Ramp Advance — Ft.	—	—
Drifting — Ft.	287	173
Raising — Ft.	—	—
Diamond Drilling — Ft.	5,473	9,404

MING EXTENSION DEVELOPMENT

	1981	1980
Main Ramp Advance — Ft.	1,233	1,101
Drifting — Ft.	1,755	1,462
Raising — Ft.	109	204
Diamond Drilling — Ft.	18,658	7,178

MILLING

Although tonnage milled was below plan, production of all metals was in excess due to higher mill heads and recoveries. Copper grade in the ore remains in the calculated range on the average but there appears to be a decline in the ratio of gold and silver content. Zinc grades have remained fairly stable but, on occasion, it has been difficult to depress. Another line of cells was re-activated in the second cleaner stage to alleviate this problem. A set of Skega rubber shell liners and lifters was installed in the Rod Mill in March. This is the first installation in a rod mill in Canada. The performance of these liners and lifters is excellent and very little wear was apparent at year end.

A new sulphur tower was installed during the year and this method of lowering the ph of the cleaner circuit remains far superior to the former method of injecting SO 2 gas.

MINING

Deeper mining for the year resulted in a reduction in the average tons produced per operating day from 761 in 1980 to 711 in 1981. This average was further reduced to 669 when use of the shaft had to be suspended following an accident which damaged a skip in June.

The main decline was developed to the 2700 level and, since results on the 2600 level and diamond drilling below have been disappointing, no further extension of this main ramp is planned currently.

Eighty percent of the ore was produced from the 2100 to 2600 levels with most of the balance coming from small high grade lenses to the north of the main zone on the 1800 and 1985 levels.

An underground diamond drilling program was completed to test for northerly extensions of the main zone between the 600 and 1500 levels. Seventeen holes were drilled, totalling 5309 feet, none of which intersected ore grade mineralization.

EXPLORATION

Exploration continued on the three coterminus properties to the northeast of the Ming Mine Boundary Shaft. Reconnaissance coverage will be extended during the 1982 field season.

Three other areas were acquired through staking during 1981.

1) Exploration was completed on a block of sixteen claims located one mile south of the Main Mine. No indications of significant mineralization were found.
2) Staking on the western perimeter of Rambler property was conducted to re-examine the mineral potential of the acid-basic contact.
3) Preliminary surveys were initiated on a block of sixteen claims in the vicinity of Snook's Arm. These surveys will be completed during the 1982 field season.

Four surface diamond drill holes were completed to test the favourable contact at a vertical depth of 1000 feet in the vicinity of the Boundary Shaft. No massive sulphides were encountered. Total footage drilled was 6,789 feet.

GENERAL

It is a pleasure to acknowledge the support and co-operation of the Officers and Directors of the Company, and also the efficient work of the mine staff and employees during a difficult year.

Respectfully submitted,

J. E. GRAINGER, B.Sc., P.Eng.

Mine Manager

March 2, 1982

Consolidated Balance Sheet

ASSETS

	1981 $	1980 $
CURRENT ASSETS		
Cash and term deposits	23,245,206	17,318,275
Settlements receivable	6,097,425	8,084,357
Accounts receivable	344,514	204,320
Inventory of concentrate	1,933,984	1,877,049
Prepaid expenses	14,068	52,123
	31,635,197	27,536,124
FIXED ASSETS		
Mining property costing $5,377,716 has been fully amortized		
Buildings, surface structures and equipment — at cost	9,110,988	9,011,130
Less: Accumulated depreciation	9,077,988	8,696,318
	33,000	314,812
DEFERRED EXPENDITURES		
Mine development expenses — at cost less accumulated amortization of $2,324,339 (1980 — $2,171,050)	—	153,289
Materials and supplies	986,693	1,096,116
	986,693	1,249,405
Excess of cost of investment in subsidiary over the book value of net assets at date of acquisition (note 7)	—	315,913
	32,654,890	29,416,254

SIGNED ON BEHALF OF THE BOARD

D. A. MACFARLANE, Director

A. G. KIRKLAND, Director

December 31, 1981

LIABILITIES

CURRENT LIABILITIES	1981 $	1980 $
Accounts payable and accrued liabilities	601,891	680,594
Income taxes payable	244,815	1,379,274
Mining tax payable	250,971	682,093
Accrual under participation agreement (note 3)	4,014,211	5,713,103
	5,111,888	8,455,064

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized — 5,000,000 shares of $1 par value		
Issued —		
2,980,006 shares	2,980,006	2,980,006
Less: Discount thereon	965,000	965,000
	2,015,006	2,015,006
CONTRIBUTED SURPLUS	14,625	14,625
RETAINED EARNINGS	25,513,371	18,931,559
	27,543,002	20,961,190
	32,654,890	29,416,254

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the Year Ended December 31, 1981

	1981 $	1980 $
REVENUE FROM CONCENTRATE PRODUCTION	10,156,308	15,447,124
Less: Marketing expenses	526,677	497,159
	9,629,631	14,949,965
INTEREST INCOME	3,647,634	1,705,155
OTHER INCOME	571,503	139,212
	13,848,768	16,794,332
EXPENSES		
Operating	8,915,027	8,655,296
Exploration	449,758	237,627
Depreciation and amortization	891,106	883,416
Change in inventory levels	(56,935)	(1,877,049)
	10,198,956	7,899,290
ALLOCATION UNDER PARTICIPATION AGREEMENT (note 3)	(742,000)	2,174,000
	9,456,956	10,073,290
EARNINGS BEFORE TAXES AND EXTRAORDINARY ITEM	4,391,812	6,721,042
PROVISION FOR TAXES		
Income taxes	2,300,000	3,200,000
Mining taxes	—	1,300,000
	2,300,000	4,500,000
EARNINGS BEFORE EXTRAORDINARY ITEM	2,091,812	2,221,042
EXTRAORDINARY ITEM (note 4)	4,490,000	—
NET EARNINGS FOR THE YEAR	6,581,812	2,221,042
RETAINED EARNINGS — BEGINNING OF YEAR AS RESTATED (note 2)	18,931,559	16,710,517
RETAINED EARNINGS — END OF YEAR	25,513,371	18,931,559
EARNINGS PER SHARE:		
Before extraordinary item	.70	0.75
For the year	2.21	0.75

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1981

	1981 $	1980 $
SOURCE OF WORKING CAPITAL		
From operations	7,468,441	3,028,266
Decrease in materials and supplies	109,423	—
	7,577,864	3,028,266
USE OF WORKING CAPITAL		
Purchase of fixed assets	135,615	88,074
Acquisition of subsidiary (note 7) — Fixed assets of subsidiary at date of acquisition	—	132,032
Excess of cost of investment in subsidiary over the book value of net assets at date of acquisition	—	315,913
Increase in materials and supplies	—	203,087
	135,615	739,106
INCREASE IN WORKING CAPITAL	7,442,249	2,289,160
WORKING CAPITAL — BEGINNING OF YEAR	19,081,060	16,791,900
WORKING CAPITAL — END OF YEAR	26,523,309	19,081,060

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 1981

1. Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, 464739 Ontario Limited.

Sale and Inventory of Concentrate

As of January 1, 1980, the Corporation entered into a new sales agreement under which title to the Corporation's concentrate passes when it is loaded aboard ship.

Accordingly, copper concentrate awaiting shipment is treated as inventory and valued at the lower of cost, determined on an average cost basis, and estimated net realizable value.

Depreciation and Amortization

Depreciation and amortization of fixed assets are on the unit of production method based on the estimated ore reserves.

Mine development expenses are being amortized on the unit of production method based on the estimated ore reserves.

Materials and Supplies

Materials and supplies inventory are valued at the lower of cost and estimated realizable value.

Settlements Receivable

Settlements receivable are shown at estimated realizable value. In accordance with terms of the sales contract, final settlements are made at prices prevailing at a future date and the amounts received may vary from the amounts shown as settlements receivable at December 31, 1981. Payable copper contained in concentrate has been valued at \$.84 per pound; 1980 - \$.88.

Forward Hedge Contracts (note 2)

Forward hedge contracts are not given accounting recognition until the contracts are settled; at which time the resulting gain or loss is included in income.

Excess of Cost of Investment in Subsidiary

The excess of cost of investment in Gullbridge Mines Limited ("Gullbridge") (note 7) over the book value of its net assets at the date of acquisition was amortized over the period that the tax losses of Gullbridge were utilized by the Corporation.

2. Change in Accounting Policies

The Corporation has changed its accounting policy for forward hedge contracts. Previously, forward hedge contracts were valued based on the difference between the forward sales price and the quoted price on the commodity exchange market at December 31. Now, forward hedge contracts are not given accounting recognition until the contracts are settled, at which time the resulting gain or loss is included in income.

This change in policy reduced income by \$39,943 in 1981 and \$370,637 in 1980. This change has been applied retroactively and the prior period figures have been re-stated. This resulted in the following adjustment to retained earnings:

	1981	1980
	$	$
RETAINED EARNINGS — BEGINNING OF YEAR		
As previously reported	19,302,196	16,710,517
Prior period adjustment re change in method of accounting for forward hedge contracts	370,637	—
As re-stated	18,931,559	16,710,517

3. PARTICIPATION AGREEMENT

Under a participation agreement between the Corporation, the Carroll Prospector Group ("Carroll") and Advocate Mines Limited ("Advocate"), the Corporation is extracting ore from a property known as the Ming Extension which adjoins the Corporation's Ming Mine. The agreement provides for the Corporation to pay to Carroll and Advocate 10% of the profits therefrom until its exploration and preproduction costs have been recovered and thereafter 55% of the profits. Future production is expected to be substantially all from the Ming Extension property.

4. EXTRAORDINARY ITEM

This results from a realization of the income tax benefits of pre-acquisition tax losses and expenses incurred by Gullbridge (note 7) and represents a recovery of income taxes for the years:

		$
1980	—	2,190,000
1981	—	2,300,000
		4,490,000

5. FUTURE INCOME TAXES

The Corporation now has available the accumulated losses for tax purposes of approximately $1,650,000 of Gullbridge which may be carried forward and used to reduce taxable income in future years. These losses must be claimed no later than December 31, 1985. No future tax benefit has been recognized in the accounts for this item.

6. FORWARD HEDGE CONTRACTS

The Corporation has entered into forward hedge contracts with respect to its share of copper and gold contained in concentrate produced but not paid for at December 31, 1981. The contracts cover 2,200 tonnes of copper at an average price of Can. $1.00 per lb. and 2,500 oz. gold at an average price of Can. $520 per oz.

At December 31, 1980, the Corporation had entered into forward hedge contracts covering 1,825 tonnes of copper contained in concentrate to be paid for in the months of January to July, 1981, (both inclusive) at an average price of Can. $1.13 per lb.

7. ACQUISITION AND WIND UP OF SUBSIDIARY

The Corporation acquired all the capital stock of Gullbridge from First Maritime Mining Corporation Limited, an affiliated corporation, on June 30, 1980 for $450,000 cash. The excess of cost of this investment over the book value of Gullbridge's net assets at the date of acquisition was carried as an asset on the balance sheet at December 31, 1980 and written off in 1981.

On December 31, 1980, Gullbridge was wound up into the Corporation.

8. MINING OPERATIONS

Due to relatively low metal prices and ore reserves, the Corporation expects to cease mining operations in the next fiscal period. The gain or loss resulting from the closure of the mine cannot be estimated at the present time and will be accounted for in the period in which it arises.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Consolidated Rambler Mines Limited as at December 31, 1981 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of accounting for forward hedge contracts, as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

COOPERS & LYBRAND
Chartered Accountants

Saint John, N.B.
January 29, 1982